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# PEOPLES OIL LIMITED

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## 1985 ANNUAL REPORT

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# A N N U A L M E E T I N G

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## Notice of Annual Meeting

The Annual Meeting of the shareholders of  
Peoples Oil Limited will be held on  
Monday, April 28, 1986 at 9:00 a.m.  
in the Viking Room at the Calgary Petroleum Club,  
319 – 5th Avenue S.W., Calgary, Alberta.

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PEOPLES OIL LIMITED

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# P R E S I D E N T ' S      R E P O R T

On behalf of the Board of Directors it is a pleasure to submit your Company's Annual Report covering the period from our interim report of June 19, 1985 to the present. This report outlines some of the important developments which have affected the Company.

## SOUTH COLE CREEK PROJECT

Converse County, Wyoming

This continues to be our most important project and our most important area of operation.

In September of 1985 a new well was drilled on NW SE Section 5 ( Fed #4-5 ). This well was suspended at 9,200 feet after encountering approximately 20 feet of net porous sand which was water bearing.

The Fed #4-5 well came in approximately 75 feet below the geological prognosis and encountered water-bearing Dakota sand rather than oil-bearing Dakota sand. It is felt that if the well is re-drilled from about the 7,000 foot level and the bottom re-positioned southwestwardly from the present position, the well should encounter oil-bearing sand and make an excellent well. Prior to conducting this re-drill operation we must obtain permission from the adjacent operators and from the Wyoming Oil and Gas Commission since the well will encroach on leases which we do not own.

During the month of December, 1985 water production on the Fee #3-8 well reached 300 barrels per day and oil dropped to 15 barrels per day. Because of the decline in crude oil prices and the high cost of water disposal, production on this well was suspended. No attempts to shut off the water are planned until some stability returns to crude oil prices.

Peoples' revenue from the sale of crude oil will of course be severely affected by dropping crude oil prices which at the writing of this report are still falling. Coincidental with the drop in price we have imposed restricted producing rates on our wells since we feel that there is a good possibility that crude oil prices will rise in the near

future and we do not wish to produce too much of our reserves at the lower prices.

## V-TWO DRAW PROJECT

Converse County, Wyoming

Peoples continues to acquire land interests in the V-Two Draw structure which is three miles northeast of the South Cole Creek structure. In January, 1986 Peoples, together with Mon-Oil and three of the other participants in the South Cole Creek project, acquired an interest in approximately 1,800 net acres and a producing Frontier sand oilwell on NW SE Section 27, T35N, R76W (Mobil Valentine #1) from Mobil Oil and its partners. There is considerable interest in the V-Two Draw area because of a well which was drilled to the northwest. This well was drilled in 1985 by Chambers Oil and was a multi-zone discovery. It continues to produce light oil at high rates.

Cost of the purchase of the V-Two Draw Mobil lands was \$78,000 U.S. of which Peoples' share was 27 percent.

The Mobil Valentine #1 well produces approximately 10 barrels per day of clean light-gravity green oil. The reservoir has a high pressure of about 3,600 psig. The Valentine well was never given a sand-oil fracture stimulation treatment and it is felt that such a treatment could at least double the production rate. With the return of more favorable crude oil prices there is a possibility that our group will drill a new well on the V-Two Draw acreage.

## OTHER PROJECTS

Peoples, together with Mon-Oil, will continue to obtain lands in highly potential oil reserve areas of the U.S. including Wyoming. To this end, an offer has been made to Arco for certain leases in the Powder River Basin which offset producing leases. If we are successful in our purchase with Arco this new prospect should provide opportunities to develop additional high quality, high potential reserves.

We are working on several other projects which are similar to the Arco prospect.



# PRESIDENT'S REPORT

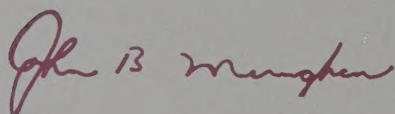
## CORPORATE MATTERS

We have discontinued our efforts to purchase for redemption issued shares of Peoples Oil Limited through the facilities of the Vancouver Stock Exchange since we feel that this money can now be used to purchase distressed oil and gas properties.

## FINANCES

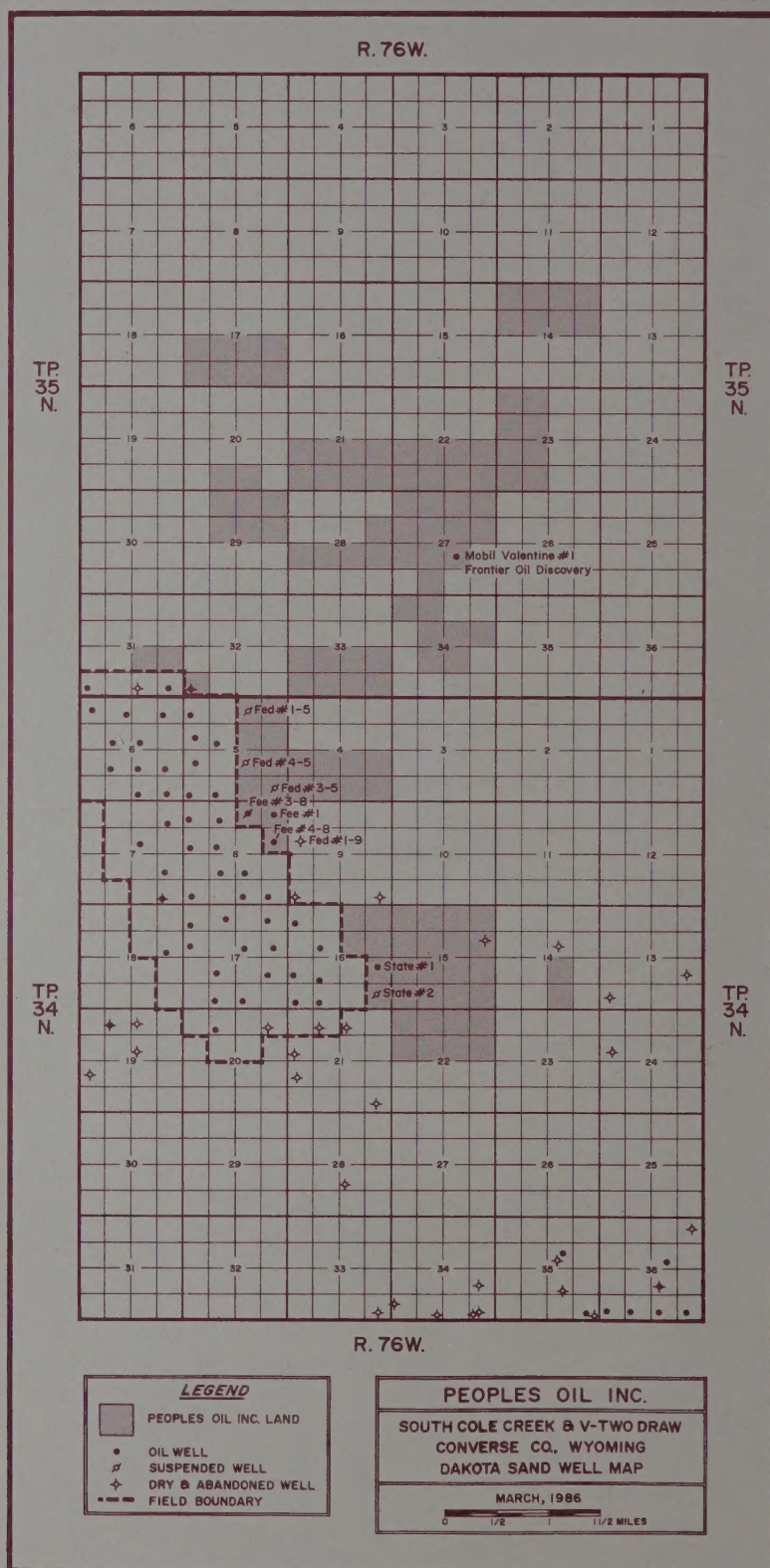
As can be seen from our financial statements Peoples has had an exceptionally successful year. We are very optimistic about our future and we believe Peoples should continue to prosper and grow. I would like to take this opportunity to thank our employees, friends and shareholders for their efforts and for their continued interest and support.

On behalf of the Board,



John B. Maughan  
President and Chief Executive Officer

Calgary, Canada  
March 17, 1986





# A U D I T O R S ' R E P O R T

To the Shareholders of  
Peoples Oil Limited

**W**e have examined the consolidated balance sheet of Peoples Oil Limited as at October 31, 1985 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co.*

Chartered Accountants

Calgary, Canada  
December 4, 1985

# FINANCIAL STATEMENTS

## Consolidated Balance Sheet October 31, 1985 (with comparative figures for 1984)

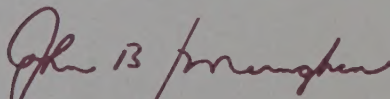
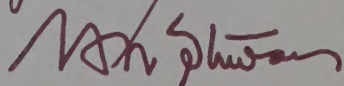
### Assets

	1985	1984
Current assets:		
Cash and term deposits .....	\$ 590,868	144,648
Inventories .....	32,474	45,695
Due from Mon-Oil Inc. (Note 2) .....	93,052	140,810
Other .....	1,912	382
Total current assets .....	718,306	331,535
Petroleum and natural gas properties, at cost .....	1,011,554	678,566
Less accumulated depletion and depreciation .....	384,074	129,049
	627,480	549,517
Other .....	3,335	3,042
	<u>\$1,349,121</u>	<u>884,094</u>

### Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable .....	\$ 412	—
Income taxes payable .....	6,253	—
Total current liabilities .....	6,665	—
Deferred income taxes (Note 3) .....	241,753	72,000
Shareholders' equity:		
Share capital (Note 4)		
Authorized:		
10,000,000 common shares without nominal or par value		
Issued:		
1,955,003 common shares .....	697,300	697,300
Foreign currency translation account .....	40,912	—
Retained earnings .....	362,491	114,794
	<u>1,100,703</u>	<u>812,094</u>
	<u>\$1,349,121</u>	<u>884,094</u>

On behalf of the Board:

 Director  
 Director

See accompanying notes.



# FINANCIAL STATEMENTS

## Consolidated Statement of Income and Retained Earnings Year ended October 31, 1985 (with comparative figures for 1984)

	1985	1984
Revenue:		
Oil and gas .....	\$834,928	423,498
Royalty .....	70,400	14,444
Interest .....	32,199	24,207
Foreign currency gain .....	22,298	—
	<u>959,825</u>	<u>462,149</u>
Expenses:		
Production costs .....	184,714	72,219
Joint venture operating costs .....	72,830	49,869
Depletion and depreciation .....	239,556	129,049
General and administrative .....	44,912	24,218
	<u>542,012</u>	<u>275,355</u>
Income before income taxes .....	417,813	186,794
Income taxes: (Note 3)		
Current .....	6,197	—
Deferred .....	163,919	72,000
	<u>170,116</u>	<u>72,000</u>
Net income .....	247,697	114,794
Retained earnings, beginning of year .....	114,794	—
Retained earnings, end of year .....	<u>\$362,491</u>	<u>114,794</u>
Earnings per share .....	<u>\$ 0.13</u>	<u>0.06</u>

## Consolidated Statement of Changes in Financial Position Year ended October 31, 1985 (with comparative figures for 1984)

	1985	1984
Sources of working capital:		
Net income .....	\$247,697	114,794
Add: depletion and depreciation .....	239,556	129,049
deferred income taxes .....	163,919	72,000
Funds provided from operations .....	651,172	315,843
Issuance of shares .....	—	12,750
Total funds provided .....	<u>651,172</u>	<u>328,593</u>
Uses of working capital:		
Additions to petroleum and natural gas properties .....	263,452	243,907
Foreign currency adjustment .....	7,614	—
Total funds applied .....	<u>271,066</u>	<u>243,907</u>
Increase in working capital .....	380,106	84,686
Working capital, beginning of year .....	331,535	246,849
Working capital, end of year .....	<u>\$711,641</u>	<u>331,535</u>

See accompanying notes.



# NOTES

## Notes to Consolidated Financial Statements October 31, 1985

### 1. Significant accounting policies:

#### a) Petroleum and natural gas properties:

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby costs related to the exploration for and development of oil and gas reserves in North America are capitalized. These costs include leasehold acquisition costs, geological and geophysical costs, costs of drilling both productive and non-productive wells, oil and gas field production equipment and related overhead expenses. All such costs are depleted and depreciated on the unit-of-production method, based on estimated proven reserves as determined by Company engineers.

The Company applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves, at current prices and costs, plus the estimated fair market value of unevaluated properties.

#### b) Foreign currency translation:

In 1984 the Company followed the recommendations of the Canadian Institute of Chartered Accountants and accounted for the translation of its United States subsidiary using the temporal method. During the year the Company's United States subsidiary became a self sustaining entity and accordingly the Company has adopted current rate method of foreign currency translation.

The 1985 financial statements have been translated as follows: assets and liabilities at the rate of exchange in effect at the balance sheet date and revenue and expense items at the rate of exchange in effect on the dates on which the items are recognized in income. The financial statements for prior years have not been restated. The difference arising on translating the assets and liabilities of the United States subsidiary at the current rate as of the commencement of the year has been transferred to the foreign currency translation account, the balance of which comprises:

Gain arising upon United States subsidiary becoming self sustaining .....	\$33,727
Gain on translation of 1985 financial statements of the United States subsidiary .....	<u>7,185</u>
	<u>\$40,912</u>

The following tabulation summarizes the principal effects of the United States subsidiary becoming self sustaining:

Inventory – increase .....	\$ 3,246
Petroleum and natural gas properties – increase .....	43,096
Deferred income taxes – increase .....	(5,834)
Net income – increase .....	<u>404</u>
	<u>\$40,912</u>

#### c) Joint venture accounting:

Substantially all of the Company's exploration activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

#### d) Inventories:

Inventories are recorded at the lower of cost (first in first out) and replacement cost.

### 2. Related party transactions:

The Company participates in a joint venture with Mon-Oil Inc., a wholly-owned subsidiary of Mon-Oil Limited, a shareholder. The terms of the joint venture are considered comparable to similar transactions with non-related parties. Substantially all capital expenditures incurred during the year relate to this joint venture.

The Company has earned \$14,210 (1984 – \$5,530) of interest income on the amount due from Mon-Oil Inc.

Mon-Oil Limited has provided management services to the Company during the year in the amount of \$9,325 (1984 – \$7,200).



# NOTES

## 3. Income taxes:

	1985	1984
Provision for income taxes based on combined basic Canadian federal and provincial tax rate of 47% (1984 - 47.2%) .....	\$196,372	88,167
Increase (decrease) in income taxes resulting from:		
Lower effective income tax rate on earnings of foreign subsidiary .....	(17,798)	(15,597)
Other .....	(8,458)	(570)
	<u>\$170,116</u>	<u>72,000</u>

## 4. Share capital:

Stock purchase options:

During the year, all of the stock purchase options granted in 1984 were rescinded and the Company granted the following stock purchase options to directors and employees:

Expiry Date	Option Price	Number Granted	Number Exercised	Number outstanding October 31, 1985
March 3, 1988	\$0.35	<u>155,000</u>	<u>—</u>	<u>155,000</u>

## 5. Segmented information:

The Company operates principally as an oil and gas exploration and development company.

	1985		
	Canada	United States	Total
Income:			
Production .....	\$ —	905,328	905,328
Interest .....	17,989	14,210	32,199
Foreign Currency Gain .....	22,298	—	22,298
	<u>40,287</u>	<u>919,538</u>	<u>959,825</u>
Expenses:			
Production costs .....	—	184,714	184,714
Joint venture operating costs .....	—	72,830	72,830
Depletion and depreciation .....	—	239,556	239,556
	<u>—</u>	<u>497,100</u>	<u>497,100</u>
Segmented income before the following .....	<u>\$ 40,287</u>	<u>422,438</u>	<u>462,725</u>
General and administrative .....			44,912
Income taxes .....			170,116
Net income .....			<u>\$247,697</u>
Identifiable assets .....	<u>\$526,166</u>	<u>822,955</u>	<u>1,349,121</u>



# NOTES

## 5. Segmented information – continued:

	1984		
	Canada	United States	Total
Income:			
Production .....	\$ –	437,942	437,942
Interest .....	18,677	5,530	24,207
	<u>18,677</u>	<u>443,472</u>	<u>462,149</u>
Expenses:			
Production costs .....	–	72,219	72,219
Joint venture operating costs .....	–	49,869	49,869
Depletion and depreciation .....	–	129,049	129,049
	<u>–</u>	<u>251,137</u>	<u>251,137</u>
Segmented income before the following .....	<u>\$ 18,677</u>	<u>192,335</u>	211,012
General and administrative .....			24,218
Income taxes .....			72,000
Net income .....			<u>\$114,794</u>
Identifiable assets .....	<u>\$117,923</u>	<u>766,171</u>	<u>884,094</u>



# CORPORATE INFORMATION

## OFFICERS AND DIRECTORS:

John B. Maughan  
President & Director

Sherry L. Cremer  
Secretary & Director

H. Norman Stewart  
Treasurer & Director

John I. Maughan  
Vice President Operations & Director

Kenneth R. Murray  
Director

Brett P. Maughan  
Director

## HEAD OFFICE AND REGISTERED OFFICE:

1410 Elveden House  
717 – 7th Avenue S.W.  
Calgary, Alberta T2P 0Z3  
Phone: (403) 269-7717

## AUDITORS:

Peat, Marwick, Mitchell & Co.  
2500 Scotia Centre  
700 Second Street S.W.  
Calgary, Alberta T2P 2W2

## BANK:

The Royal Bank of Canada  
Main Branch  
339 – 8th Avenue S.W.  
Calgary, Alberta T2P 1C4

## REGISTRAR AND TRANSFER AGENT:

The Canada Trust Company  
505 Third Street S.W.  
Calgary, Alberta T2P 3E6  
Phone: (403) 294-3333

## SOLICITORS:

McLaws & Company  
Sixth Floor  
407 – 8th Avenue S.W.  
Calgary, Alberta T2P 1E6

DuMoulin, Black  
1004 – 595 Howe Street  
Vancouver, B.C. V6C 2T5

## EXCHANGE LISTING:

Vancouver Stock Exchange Symbol PPS

## AUTHORIZED CAPITALIZATION:

10,000,000

## SHARES ISSUED:

1,955,003



